GRANT STREET ASSET MANAGEMENT, INC.
QUARTERLY LETTER
1ST QUARTER 2022
APRIL 15TH, 2022

As we began 2022, the chaotic COVID-driven changes to everyday life that have marked the past two years seemed to fade into the background, as much of the world was vaccinated in 2021. Economically, the recovery was in full swing, and by year-end, employment levels and retail sales reached pre-pandemic levels. Hotel occupancy and TSA checkpoint data were also near 2019 levels, signaling consumers had recovered to pre-pandemic spending and traveling. However, investors have been reminded recently that the steady positive returns enjoyed throughout 2021 do not last forever. The first quarter of 2022 has been marked by stock and bond market ups and downs (mostly downs) that investors have not experienced since COVID dominated headlines in 2020.

What has driven this volatility? With the economy having recovered, as evidenced by a robust labor market and strong consumer, we have anticipated an increase in interest rates through 2022. “Cheap money” will no longer be available to support growth and recovery. We saw the Federal Reserve’s first rate increase in mid-March, and the market is pricing in an additional six to seven increases for a total of 2% throughout 2022. The Fed’s objective with higher interest rates is to cool an economy that has grown too hot, and the historically high inflation in the U.S. has provided them the catalyst they required to start increasing rates. High inflation and the anticipation of higher interest rates were enough on their own to cause the market to pull back in the first weeks of this year. The unexpected conflict between Russia and Ukraine in February simply added more uncertainty to the global markets.

Prior to geopolitical events dominating market headlines, technology stocks experienced the brunt of the market weakness early in the quarter. This was not surprising given their record high valuations over the last few years and their sensitivity to rising interest rates, which can increase the cost of their growth strategies. Large U.S. companies in non-technology sectors held up best throughout the quarter, with a strong rally in energy stocks. Global equities, including emerging markets, performed about middle of the pack. Broadly speaking, there was no safe haven in equities this quarter.

Equity Index	Last 3 Years thru 2021 (Cumulative)	1Q 2022
S&P 500 (Large Companies)	100.4%	-4.6%
Nasdaq 100 (Technology-heavy)	164.7%	-8.9%
S&P 400 (Mid-sized Companies)	78.9%	-4.9%
Russell 2000 (Small-sized Companies)	72.9%	-7.5%
MSCI EAFE (Europe, Australia & Far East)	46.4%	-5.9%
MSCI Emerging Markets	36.6%	-6.9%
MSCI ACWI (All Country World Index)	73.6%	-5.5%

With that said, investors have benefited from an extremely strong period of returns from 2019 to 2021, as displayed in the table above. As such, the volatility that we have faced so far this year is not outside the ordinary behavior of markets in any given year and represents the normal workings of a healthy market, in our opinion.

Shifting focus to fixed income markets (bonds), we see a landscape that is also reacting to higher interest rates. As a result, bond prices have fallen, with longer dated maturities suffering more than shorter maturities. Similar to equities in the first quarter, most fixed income sectors struggled as investors sold bonds in anticipation of a consistent march higher in interest rates. We are focused on two questions: How high will rates go? How long will the rate hike last? The Federal Reserve only controls very short-term overnight interest rates. Investors, reacting to anticipated increases in short-term rates buy and sell bonds to shift strategy ahead of what's to come. As a result, bond prices fall before government officials even begin to take action on short-term rates. We believe there is some of this happening now and that this year will likely be another challenging year for bond investors.

Fixed Income Index	**2020**	**2021**	**1Q 2022**
Morningstar US Core Bond	7.5%	-1.6%	-6.0%
U.S. 10-year Treasury	10.7%	-3.7%	-6.6%
ICE BofA 1-3 Yr. U.S. Treasury	3.1%	-0.6%	-2.3%
U.S. 3-month T-Bills	0.7%	0.1%	0.0%
ICE BofA U.S. High Yield	6.2%	5.4%	-4.5%
ICE BofA 7-10 Yr. Municipal Bond	5.2%	0.9%	-6.2%

As the Investment Committee evaluates the market environment today, we are still positive on global equities to provide growth throughout 2022. That being said, we are more cautious today than we were a year ago, so we are also focused on building a resilient defensive side of the portfolio for more conservative investors. Our investment committee is evaluating bond exposures to shorten maturities and maintain high quality. More traditional fixed income may be paired with multi-sector fixed income and buffered equity strategies to enhance returns in a challenging rate environment. On the equity side, we favor large companies over small companies, as we believe they are likely to better weather inflation pressures. We continue to favor equity diversification. Valuations for various regions outside of the U.S. are trading at particularly compelling levels, providing an attractive long-term entry point. We acknowledge that foreign stocks, particularly those in Europe, may be especially volatile throughout this year given the uncertainty surrounding the Russia and Ukraine conflict, and as such we have added some protection into our investments in this sector.

Geopolitical events throughout history have consistently impacted markets, but the average impact is fairly short-lived, according to a recent study by one of our research partners. Since 1939 (spanning 28 events from WWII to Brexit), the typical market sell-off lasts approximately three weeks after the start of a geopolitical event and takes approximately three more weeks to fully recover. In the recent Russia-Ukraine conflict, markets fell for three weeks, and at the time of this letter appear to have bottomed around March 14 before beginning a strong rebound through the end of the quarter. Only hindsight will tell us for sure if March 14th was the bottom related to this conflict. Our primary investment focus moving forward as it relates to this conflict is on energy prices. We believe higher energy prices that sustain through the summer could have an impact on the U.S. consumer and lead to slowed growth in the U.S. that we otherwise would not have anticipated in 2022. However, we believe the consumer can withstand some period of higher prices before they begin to change behavior in a way that will shift the economic cycle given low unemployment, increasing wages, a solid savings rate and government stimulus over the past two years. We are cautiously optimistic that energy prices will retreat to less stressful levels, but the timing of that decline is something we are monitoring closely.

Finally, recent headlines have focused on an increased threat of cyber attacks in the U.S. This is a topic that continues to command attention and has recently been highlighted as a key risk by the President of the United States related to the conflict in Europe. We have had recent conversations with clients about this topic and wish to highlight more information for all clients. Grant Street has many layers of security hardware, software, policies and procedures in place to protect personal information. Staff is trained regularly on avoiding phishing emails and other digital dangers. In this letter, we wish to highlight additional security features you may choose to take advantage of through your custodian (Schwab or Fidelity). We have included an insert with this reporting package titled ‘Steps You Can Take to Enhance Account Protection’. These steps are specific to adding additional layers of protection to your accounts and would be useful if a bad actor called Schwab/Fidelity directly pretending to be you or if someone attempted to compromise your login with the custodian’s online access site. These features are completely optional, but they are available and never a bad idea as extra layers of protection in today’s digital world. We have also posted documents and resources on our website with more information and guidelines on personal cyber protection. As always, we welcome conversations around cybersecurity or any other topics where we may provide counsel. We thank you for your continued confidence in Grant Street Asset Management.